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27 July 1972

DCI BRIEFING NOTES
FOR CHAIRMAN MAHON

CHILE

I. President Allende faces major political and economic problems, but is taking the initiative to reduce them.

A. Recent victories in labor disputes and a legislative by-election have increased government confidence.

B. The ruling coalition remains intact despite serious strains.

C. Allende has attacked Congress and the courts, and is presenting himself as the defender of the Constitution.

II. Even so, after 18 months of battle, the opposition remains a viable political force.

A. Several parties have formed a united confederation for the 1973 elections.

B. They have challenged Allende's power to nationalize private companies, and have impeached another cabinet minister.

1. These acts have little practical effect, but maintain a psychological momentum.

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C. The opposition still controls an important segment of the news media, which they use without interference.

1. A major scandal could develop. Last week the opposition media publicized the arrests of some of Allende's Socialist colleagues for bank robbery and other criminal acts.

D. Political attention is now turning to the Congressional elections scheduled for next March; as of now, the opposition seems to have a good chance of retaining its majority.

III. The military remains alert, but is growing accustomed to Allende.

- A. Talk of a coup seems to be at a low ebb.
- B. Allende continues to flatter the military and provide them with good pay for the first time in recent history.
- C. He has not interfered with arms purchases from traditional free world suppliers.
- D. The Soviets have offered military credits of over \$300 million.

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1. The military would prefer not to buy Communist arms, but the temptation is great, especially if Soviet advisers or technicians are kept out.
 - E. Military officers continue to accept lower level posts in government and in nationalized enterprises, even though they declined cabinet posts last June.
- IV. The economy, while hard pressed, continues to grow.
- A. Growth rate under Allende is around 7 percent, twice the rate under the previous administration. Unemployment has been drastically reduced.
 - B. Economic aid promised by Communist countries exceeds \$500 million, but little of this has been used yet.
 - C. European, Japanese and Latin American banks continue to supply credit, generally used to finance imports previously from the US.
 - D. Allende last week announced a severe austerity plan and a new investment schedule. If carried out--it will be difficult--it could reduce some outstanding problems.

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E. Among the economic problems are a rampant inflation, a growing black market, little private saving or investment, and diminished agricultural production resulting from the agrarian reform program.

V. Prospects for the next few months are for increased rhetoric and little substantive change.

A. Anti-Americanism, now only a passing point, may increase, as the lack of quick and easy solutions to economic problems becomes more apparent.

1. Allende has mentioned that sometime within a year there will be a plebiscite on a new constitution, but the timing is unpredictable.